

# THE CASPIAN SEA PIPELINE: A CLEAR STRATEGIC U.S. INTEREST

BY

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USAWC PROGRAM RESEARCH PAPER

**THE CASPIAN SEA PIPELINE: A CLEAR STRATEGIC U.S. INTEREST**

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Topic approved by  
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## **ABSTRACT**

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From the spring of 1998 through the winter of 2002, during the debate and initial planning for the first major pipeline in the region, a host of policy articles were being written describing the coming storm of a potential “geopolitical rivalry” between and among the Caspian superpowers. The policy arguments revolved around two distinct but related issues: first, who would be the winners and the losers in the struggle for pipeline routes and revenues, and how would the outcome affect the future battle for strategic advantage? Secondly, given the answer to the first question, how could American interests be realized without destabilizing the civil societies and fragile institutions of the Caspian region?

The answer to the first question may not be fully determined, but this paper will look at how, after the pipelines completion, the U.S. can still actively pursue their interests without destabilizing the Central Asia. After reviewing articles and papers from regional experts and oil business experts, this study will present what the region has to offer the world and the challenges the countries in the Caspian Sea region and the energy consumers face in their pursue of the “prize”. Finally, recommendations will be proposed that will outline how U.S. interests can be achieved and serve as a stabilizing force in supporting the fragile institutions and civil societies of the Caspian region.



## THE CASPIAN SEA PIPELINE: A CLEAR STRATEGIC U.S. INTEREST

On May 25<sup>th</sup>, 2005, the Baku-Tblisi-Ceyhan (BTC) Pipeline was officially opened with the flow of “first oil”. Transporting crude oil from the southern Caspian, it was hailed as a “magnificent achievement of engineering and international cooperation.”<sup>1</sup> Officials from the United States praised its attributes: to enhance the future prosperity and sovereignty for the countries involved, reduce oil tanker traffic and diversify the supply of energy in the region.<sup>2</sup> Not mentioned in the celebration were the descriptions of the intense debate, opposition and political infighting that drove the countries involved to invest millions of dollars in lobbying for the grand prize, which would mean hundreds of millions of dollars in future revenues.

From the Spring of 1998 through the Winter of 2002, during the debate and initial planning for, the first major pipeline in the region, a host of policy articles were being written describing the coming storm of a potential “geopolitical rivalry” between and among the Caspian superpowers.<sup>3</sup> Energy analysts such as Ian Bremmer at the World Policy Journal and Shah Alam at the Institute for Defense Studies and Analysis (IDSA) were very bearish on the strategic, political and commercial options for the United States with regard to the pipeline. The policy arguments revolved around two distinct but related issues: first, who would be the winners and the losers in the struggle for pipeline routes and revenues, and how would the outcome affect the future battle for strategic advantage?<sup>4</sup> Secondly, given the answer to the first question, how could American interests be realized without destabilizing the civil societies and fragile institutions of the Caspian region?<sup>5</sup>



## **Regional Challenges and Large Reserves**

The Caspian Region is at the very epicenter of conflict. The Caspian Sea itself is 700 miles long, and is bordered by five states: Russia, Kazakhstan, Turkmenistan, Iran and Azerbaijan. However, for economic and political purposes, the Caspian Region is considered to include Armenia, Uzbekistan and Georgia (which is the largest natural gas producer in the region).<sup>6</sup> Among the five states, only Iran is a member of the Organization of Petroleum Exporting Countries (OPEC). Though the five Caspian states have yet to reach agreement on a division of resources for the Caspian Sea, three of them have reached a trilateral agreement on administration and sub-surface boundaries of the waters. In May 2003, Azerbaijan, Russia and Kazakhstan agreed that the northern 64 percent of the Caspian Sea would be divided into three unequal parts, giving Azerbaijan 18 percent, Russia 19 percent and Kazakhstan 27 percent.<sup>7</sup>

Besides Iran, all of these states continue to struggle with their new-found independence and a lack of political capital on the world stage. Kazakhstan, Azerbaijan, and Turkmenistan became independent only after the dissolution of the Soviet Union in 1991.<sup>8</sup>

The region has a deep history of invasion, which has resulted in uneasy cultural, ethnic, religious and linguistic linkages between and among the people. The Russian and Soviet stronghold, lasting from the early nineteenth century through the break-up of the Soviet Union in 1991 had a deeply adverse affect on the economies and social development of individual states. The obedience imposed by Russia and the former Soviet Union insured absolute control by centrally planning the economies of each

state, and imposing artificial national borders.<sup>9</sup> After gaining their independence, all of the newly independent states collapsed economically. In fact, in terms of population, military power, and economic viability, they remain relatively weak in comparison to their neighbors, particularly with regard to their political credibility with the world powers.<sup>10</sup>

The tension between the regional players still exists, and few of these long-standing disputes have been resolved. They continue to directly affect decision-making on the part of pipeline planning. One of the best examples of cultural strife is the Nagorno-Karabakh region (the breakaway region of Azerbaijan which is mostly populated with Armenians). Situated between Armenia and Azerbaijan, it continues to see intense separatist conflict, and remains a potential security threat.<sup>11</sup>

Due to varying degrees of difficulty with transitions to independence, political upheaval and poor infrastructure, the countries in the region are at present, only minor producers of oil and gas in comparison to the world market. However, what drives the interests of the world's powers in the region lies not in the past, but in the future promise of its vast oil and gas reserves. Estimates vary widely. Due to the lack of survey data, geologists and energy analysts over the last fifteen years have been unable to accurately assess reserves in the region.<sup>12</sup> Immediately after the Soviet Union broke apart, oil companies and governments were scrambling to position themselves for the prize and the promise of vast fields. In the early 1990's, the U.S. Department of Energy (DOE) estimated Caspian oil reserves would top 273 billion barrels (16% of world output). By 1999, reserve estimates were downgraded to 123 billion barrels (7.2% of world output).<sup>13</sup> Due to investment in reserve estimation studies, country reports, and more western companies operating in the region, many integrated oil companies (IOC)

and the DOE have been able to more accurately estimate the economically recoverable reserves figures. Some of the early reserve numbers were wildly speculative. Oil reserves have historically been a measure of geological data and economic risk. Proven, probable and possible reserves are the three most common categories. “Proven” refers to a 90% certainty that the reserves can be economically producible using current technology. “Probable” refers to a 50% certainty, with “possible” at 10%. Today, oil reserves in the Caspian are estimated at 48 billion barrels, which constitutes 4% of total world proven reserves.<sup>14</sup>

The region’s potential contribution to natural gas supplies on the world market is as large, if not potentially larger than for oil. In 2005, the region’s actual gas production was 3 trillion cubic feet per year (tcf/yr), and constituted 3% of world output. Turkmenistan is by far the largest producer at 2 tcf/yr, and accounts for the majority of gas output in the region. At the end of 2005, BP estimates for the economically recoverable gas reserves were 257 trillion cubic feet, 4% of the world’s total.<sup>15</sup>

With the price per barrel of oil topping \$60, the promise of 4% of the world’s reserves has sent almost every major integrated oil company (IOC) scurrying to begin development in the region.<sup>16</sup> As these companies increase their focus on developing unexplored fields, it is estimated that an additional 186 billion barrels of reserves are possible.<sup>17</sup> If these were proven reserves, it would multiply by five the present reserve level, and almost equal Saudi Arabia’s proven reserves. However, any comparison to Saudi Arabia must be tempered by an understanding of production costs and the market. Saudi Arabia has a considerable advantage due to significantly lower production costs and easier access to the oil and gas markets, and will likely remain the

principal source of future world production. Saudi Arabia's cost basis for a barrel of oil (the cost to produce one barrel) between US\$1 and US\$2, whereas the average global cost basis is around US\$5. While Saudi Arabia is wholly capable of producing and delivering to the world, the national oil companies (NOCs) ability to explore, produce, develop and ship their product to market will depend in some part on establishing and maintaining relationships with the IOCs.<sup>18</sup>

### **The Politics of Export**

Western oil companies enter into agreements in the Caspian region with some apprehension. Still relatively immature politically and economically, the independent states in the region are still finding their way with regard to concessions and agreement between and among themselves, as well as in relation to the western oil concerns. With five key Caspian states, and three more independent countries with interests in the region, there is no single export route that does not include at least half of these countries. Having been held hostage by the Soviet Union for so many generations, the governments in the region were hardly prepared to think rationally about exporting to a world market. The political legacy they inherited involved transportation to the north to the energy hubs of the major cities for eventual use and export in service of the central national oil companies, not the western world. Speaking to the Christian Science Monitor, Ivan Saffranchuk, the Moscow director for the World Security Market said, "The Central Asian countries are still very much locked into the Russian pipelines and infrastructure and must sell their oil and gas to world markets on Russian terms. The Western idea is that these countries will have real sovereignty only when they are able to independently sell their resources."<sup>19</sup> The problem is further aggravated by the lack of

any navigable waterways, which mean that transportation options cannot include the more efficient strategy of sea tankers, and are severely limited to higher capital costs and greater risks with a pipeline.<sup>20</sup> Uneven topography and political unrest greatly complicate any planned transportation routes over land, and increase capital costs dramatically.<sup>21</sup>

In addition to the pre-existing regional conflict, the influx of foreign capital (primarily for transportation and exploration) is the single greatest complicating factor from “extra-regional political and economic influences” within the region.<sup>22</sup> Presently, every major global integrated oil company has some concern in the region. In addition to the major BTC pipeline owners (BP, Unocal, Total and ConocoPhillips), a host of western oil companies are active in exploring and developing the region. These include global players such as ExxonMobil, Chevron, Unocal, Royal Dutch/Shell Group. The governments involved know how bright their futures can be if they can “cut the right deal” with the right oil company.

However, the countries involved know that while energy is an important reason for western companies to be operating there, it is not the only reason. Security, modernization, infrastructure upgrades and ultimately global credibility are now paramount in the minds of government planners. In some ways, investments in energy have become just the “table stakes” for entry into a region which promises to grow in stature over the next twenty years. Dmitri Suslov, an expert with the independent Council on Foreign and Defense Policy in Moscow said “The game in Central Asia is

very much about competition between the powers. But, this time the countries of the region are players themselves, using the contradictions between Russia, the US, the European Union, and China for their own benefit. It's becoming very complicated."<sup>23</sup>

Given these high stakes, some Caspian countries are quickly becoming key players on the world stage. Some have become new participants in NATO's Partnership for Peace, and regularly receive military assistance through that organization. Both the United States and Turkey are assisting Georgia and Azerbaijan by providing arms modernization and sustained military training to their armed forces. In addition, Kazakhstan has embraced a truly western world view through its improved relations with NATO countries, and its plan to minimize any reliance on Russia and its regional domination.<sup>24</sup> In fact, due to Russia's cutting of natural gas supplies through Ukraine in January of 2006, it is very likely that Western European countries will soon become even more interested in energy from the region. Over the past year they have been seeking to diversify their sources of gas, and will begin a move toward more actively diversifying their portfolio, seeking non-Russian gas in order to reduce the threat of future cut-offs.<sup>25</sup>

This union between western oil companies and the Caspian states is an opportunity for both to begin a more open style of conducting business. Due to the debacle in 2004, in which Royal Dutch/Shell Group disclosed that it overstated its proven reserves by 20 percent, all western oil companies have begun operating with greater transparency and accountability.<sup>26</sup> Most of these governments understand that disclosing information on production sharing agreements, what they earn from the multi-national corporations, and how that money is spent, will continue to open up new doors

to international monetary relationships. The western companies who invest in the region will be able to increase their influence with international trade finance organizations like the U.S. Export-Import Bank, the World Bank, and the International Monetary Fund, while at the same time, pulling the Caspian governments into more strategic international relationships. Rather than struggle with financial accountability, this would make any project support conditional on full transparency.<sup>27</sup>

### **The Race for Routes**

Due to the depleting oil and gas fields and the increasing price of oil and gas, there are numerous pipeline routes now under construction, or in consideration for completion. However, beginning in the late 1990's there were only three pipeline directions which were contenders in the great pipeline race: the northern, southern and east-west routes. The northern routes of course were Russia's preferred choice. The terminal would be located at Novorossiysk, a Black Sea Russian seaport. The route runs from Baku to Novorossiysk and from the Tengiz oil field in Kazakhstan to Novorossiysk. This route is rife with political, security and economic concerns in that it passes through Chechnya, and there has always been concern that any excessive dependence on Russian pipeline routes might allow Russia to have unilateral purview over transit fee increases.<sup>28</sup>

**Table 1: Selected Oil Pipeline Routes from the Caspian Region** <sup>29</sup>

Pipeline	Route	Length (Miles)	Capacity (bbls/day)
Atyrau-Samara	Atyrau, Kazakhstan, to Samara, Russia	432	310,000
Baku-Novorossiysk	Baku, Azerbaijan, via Chechnya, to Novorossiysk, Russia/Black Sea (northern route)	868	100,000
Baku-Novorossiysk	Baku to Novorossiysk via Dagestan, Russia	204	120,000
Baku-Supsa	Baku to Supsa, Georgia/Black Sea	515	100,000
Baku-Ceyhan (BTC)	Baku to Tbilisi, Georgia, to Ceyhan, Turkey/Mediterranean Sea	1,040	1,000,000
Caspian Pipeline Consortium (CPC)	Tengiz oil field, Kazakhstan, to Novorossiysk	980	560,000
Iran Oil Swaps	Neka (Caspian port) to Persian Gulf; oil is swapped for equivalent amount	n.a.	300,000
Kazakhstan-China (being filled)	Atasu (Kazakhstan) to Alashankou (China)	620	400,000

n.a. - Not applicable

**Sources:** Numerous media sources through mid-2006 supplementing Energy Information Administration (EIA) *Caspian Sea Region Country Analysis Brief*, September 2005; EIA. *Caspian Sea Region: Reserves and Pipelines*, Table 4, July 2002; EIA. *Kazakhstan Country Analysis Brief*, July 2005. For EIA *Country Analysis Briefs* and related data, see [<http://www.eia.doe.gov/emeu/cabs>].

The southern route, or the Iranian route as it is known, would have to pass through Iran, terminating directly on the Persian Gulf. This route makes sense economically and commercially because it would pass through relatively safer regions, would be the quickest and cheapest route, and pose no environmental hazard. However, it has never had any real support from the United States due to the strained relations between the two nations. The United States would like nothing more than to see a weak Iran, unable to challenge American interests in the region. In addition they do not favor increasing their energy dependence on Persian Gulf oil by supporting routes through Iranian territories.<sup>30</sup> Almost by default then, the best route for exporting Caspian oil became the route from Baku in Azerbaijan through Tblisi in Georgia, and on to the Mediterranean port at Ceyhan in Turkey. There are numerous other pipelines in varying stages of development, but for the purposes of this paper, the main focus will



remain on the BTC pipeline, as it is the designated key export pipeline for energy resources from the western side of the Caspian Sea<sup>31</sup> (See Table 1)

The BTC pipeline itself is one of the largest construction projects ever undertaken in the region. It is buried along its entire length, and able to transport the full field output of one million barrels of crude oil per day from the Azeri-Chirag-Guneshli (ACG) fields. Running for 1,760 kilometers (km), the pipeline starts at the Sangachal Terminal near Baku, Azerbaijan, and runs for 443 km through Azerbaijan, 249 km through Georgia and 1,076 km through Turkey to the marine terminal in Ceyhan, Turkey.<sup>32</sup> It includes eight pumping stations, and at the height of its construction, employed 22,000 people.<sup>33</sup> (See Figure 1)

**Figure 1: Route of the Baku-Tblisi-Ceyhan Pipeline**<sup>34</sup>



The original concept was built on the premise that the completed pipeline must satisfy two important sectors: private and public. The project must be economically viable in order to draw private sector investment. Various third parties have funded approximately 70% of the pipeline costs. The International Finance Corporation (IFC)

and the European Bank for Reconstruction and Development (EBRD) have been instrumental in providing loans, risk insurance and export credits. In addition, export credit agencies from seven countries and a syndicate of fifteen commercial banks have participated. As mentioned above, the project has been enhanced both politically and economically by the participation of western institutions. This breeds a culture of transparent business dealings, and has given the lenders some input on the implementation of the project.<sup>35</sup> The final estimated cost of the pipeline was approximately \$3.6 billion.<sup>36</sup>

### **The Changing Face of the Region**

Of great importance to U.S. interests is the need to create economic and political institutions within each of the state in order to pursue continued independence and the transition to viable and credible societies. The pipeline, as it was originally conceived to provide a diverse energy supply and prevent any one government in the region from being able to control both the energy markets and the economies of other states.<sup>37</sup> The United States has not been oblivious to the fact that the pipeline represents a strategy to further isolate Russia in the region, and at the same time, “secure guaranteed supplies of oil and gas from the Caspian region”. In addition, the overpowering influence of the Organization of Petroleum Exporting Countries (OPEC) could be greatly diminished by the western flow of Caspian oil. This, more than any other influence drove the forward progression of, and eventual construction of the pipeline.<sup>38</sup> It is worth noting however that the estimates of future Caspian output levels for pipelines being planned

will never approach the scope of the OPEC countries production levels. Caspian production levels are expected to reach approximately 4 million barrels per day at their peak, while OPEC is expected to produce 45 million barrels per day.<sup>39</sup>

The pipeline has immense implications for the states of Azerbaijan, Georgia and Turkey, not only in the areas of “producer and transit”, but also by providing a continuous flow of hard currency to these fledgling governments.<sup>40</sup> Of the three, Azerbaijan is perhaps the most politically charged. Hoping the pipeline solves their economic and social problems, they also seek to strengthen their security in the region, while quietly seeking the hegemonic influence that comes with American companies’ involvement.

The gains for Georgia and Turkey are equally important for different reasons. Georgia will gain independence from Russian energy and greater security, while Turkey hopes to once again gain some strategic advantage in the Caucasus and Central Asia. Turkey has a 6.5 percent stake in the pipeline, and oil and gas from Iran and Iraq is already flowing through Turkey for sale in the West. Many of the countries bordering Turkey still have a “pan-Turkic identity”, and Turkey is in the enviable position of being able to benefit both from energy security and in positioning the South Caucasus region to fully enter the global energy markets. In addition, the pipeline would help mediate the transportations concern for vessels presently passing through the Bosphorus.<sup>41</sup>

In addition to providing an additional million barrels of non-OPEC oil to the world, the pipeline is far from the Strait of Hormuz, which has historically been a strategic chokepoint for energy transport. In fact, all of the straits in the region are running at capacity. The Strait of Hormuz presently has 17 million barrels per day passing through

its waters, while the half-mile wide Turkish Straits, are at their limit with three million barrels per day passing through their waters. The BTC pipeline skirts these chokepoints, and delivers to a major deep-water port in Turkey, making it economically and environmentally safer.<sup>42</sup>

However, the ramifications of the pipeline transcend geography. In many ways it redistributes social, economic and political power in the region, and reconfigures the way that decision-makers and political observers see the world. Europe will no longer be “a bridge too far” for Azerbaijan and Georgia to include as economic and political allies. Iran also now has reason to perceive its neighbor Azerbaijan as, if not an equal, then a truly independent state, capable of planning and completing a project as significant as the pipeline. And finally, for Russia, the completion of the pipeline represents a sea change in the heavy hand that they have had in dominating most of the states in the south Caucasus region. Russia sees that these newly independent states now have very powerful relationships with the western countries and companies, whose influence in the region could undermine their dominance.<sup>43</sup>

What is presently occurring in the Caspian is nothing short of an entire region taking very small steps toward becoming key players on the world stage. Until now, these former member states of the Soviet Union tended to see political involvement as largely ineffective, and at its worst, costly to their economy and well-being. The BTC pipeline, along with other pipeline projects, are continuing to prove that political decisions made in the new environment of western cooperation can prove to be commercially effective.<sup>44</sup>

As the balance of power shifts from the East to the West in this ever-expanding demand for energy, so does the need for each western region to develop its own plan for dealing with the political and economic ramifications for acquiring these supplies. As the closest western region, the European Union is in a position to control its future energy strategy. The EU represents the only true western market for Russian energy in the foreseeable future. There are no pipelines to Asia, and a healthy wariness of China still exists. The EU must begin reducing its reliance on Russian energy by presenting a united front.<sup>45</sup> They need to diversify fuels such as LNG and nuclear, as well as new supply routes (i.e. Turkey).<sup>46</sup> In addition, they need an internal energy policy which leads to an external policy which can meet the challenges head on.<sup>47</sup> Turkey is a likely ally in guaranteeing the EU of energy supplies, and providing a line of least resistance to Europe in helping it meet its demand in the near future.<sup>48</sup> Frederick Starr, in his article “The Politics of Pipelines – Bringing Caspian Energy to Markets” said that “the BTC was built to a great extent because of the commitment of Western, in particular American, leaders to the concept and vision of multiple pipelines as the best means to support new sovereignties in the South Caucasus and Central Asia.”<sup>49</sup> The countries of the west agreed that this was more than just another pipeline project. It was the beginning of a series of major projects that would help shift the balance of power from Russia to points west. Keeping that shift moving will mean taking a strategic approach to nurturing and growing not only the fledgling governments and their pipeline, but the institutions and economies that underpin them.

## **Strategic and Policy Goals**

While the completion of the BTC pipeline has been a great leap forward in building new regional infrastructure to export natural resources, it represents much more than an energy transport system. It serves as a keystone for a much larger and diverse communications and transportation network: improved highways, railways, ports and ferry systems. It also means increased build-outs of fiber-optic cables and electric transmission lines. These are becoming the basis for the Central Asian states to trade between and among themselves, as well as with the rest of the world.<sup>50</sup>

The United States must continue its support in the region by promoting free-market and democratic ideals in these fledgling countries. To this end, the United States lawmakers and policymakers should continually assess what role energy issues have in the larger context of their strategic interests. They should plan for involvement in areas where their strategic interests are greatest, as well as ways to distance themselves from some regimes when the need arises.<sup>51</sup>

A report by the London-based Global Witness, commenting on the issue of regional corruption in the gas trading sector said that corruption poses a difficult question “for the EU and its neighbors: can they meet their energy needs without feeding corruption and undermining good governance in the countries that supply or transport this energy?”<sup>52</sup> The answer to that question is a qualified “no”. Corruption in the energy sector, especially with the national oil companies, still ranks as one of the greatest challenges to doing business in Central Asia. Hence, the challenge for the United States and its allies is to balance energy and security interests in the region, which means forming alliances with other western powers, with an overarching strategy

able to deal with the regimes that do not share America's values.<sup>53</sup> In terms of trade, foreign aid and other ties, the United States and the EU are among the most influential players in the South Caucasus. They share many of the same goals, namely the integration of the region into the West, opening it to new areas of transportation and trade, helping it to become more democratic and stable.<sup>54</sup> For the United States, this stability can be strengthened through continued dedication and persistence in achieving its objectives in Central Asia. These objectives include:

- Promoting an independent, responsible and transparent government in each independent state
- Supporting economies which are based on the rule of law and market principles
- Insuring conflict resolution and regional stability through economic interdependence, security and political cooperation within the region
- Development of transportation, communications, and health & human services infrastructure, and protection of pluralism, tolerance and human rights
- Promotion and protection of United States investments and corporations<sup>55</sup>

The strategic recommendations for the United States, and its way forward in Central Asia revolve around four major and distinct areas: institutional, diplomatic and political, military and economic.

### **Institutional Recommendations:**

Nurturing relationships with institutions such as NATO and the European Union will continue to benefit the regional states, and passively undermine Russian dominance.<sup>56</sup> However this is just the start of building the institutions which will ensure

long-term energy independence in the region. As these transport and communications links become more significant, the individual states will be more heavily dependent on stability. The U.S. must:

1. *Support the creation of a structure in the Caucasus region similar to the European Union.* This would establish the support structure for stability, while supporting the states in building institutions which are in line with U.S. goals. The Asia-Pacific Economic Cooperation (APEC) organization would serve as a good model. Additionally, an organization such as this would serve as a counter to organizations like the Shanghai Cooperation Organization, (made up of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) which deals with Central Asian security issues, and excludes the United States.<sup>57</sup>

2. *Insure the regional states continue to build relationships with one another, as well as with other government and financial institutions.* The South Caucasus region has made headway in developing economic and political ties with other players in the Caspian Sea littoral states and the Black Sea. There are religious and linguistics ties that can be leveraged in building these relationships and institutions to support them. In 2004, foreign ministers from the EU invited the South Caucasus states to take part in a “Wider Europe” program aimed at enhancing political ties, trade relationships and aid.<sup>58</sup>

3. *Coordinate activities with global financial and other reform organizations, including governmental and non-governmental organizations (NGO).* These include the financial institutions operating globally such as the World Bank, U.S. Export-Import Bank, Overseas Private Investment Corporation (OPIC) and the EBRD.<sup>59</sup>



## **Diplomatic and Political Recommendations:**

The United States must actively seek to encourage diplomacy through a variety of channels. They must adopt a portfolio approach to possibilities in the region, a multi-headed strategy to encourage the governments to continue creating alternatives to the Russian energy monopoly. Given the support that the western powers have offered the leaders of Azerbaijan and Kazakhstan, they have gained enough leverage to safely pressure these regional states for improved accountability and transparency.<sup>60</sup> The U.S. must:

1. *Adopt more of a “nuanced approach” to the regional states whose leaders are not predisposed to cooperate with the U.S.* These include Turkmenistan and Uzbekistan. This approach must include facilitating energy investment and cooperation on projects which would speed oil and gas supplies to global markets. For the United States, this will necessarily entail supporting secular democratic opposition parties or individuals opposed to terrorist activities, without openly supporting regime change.<sup>61</sup>

2. *Continue to support the creation of alternative energy routes.* This would include shipping, rail and pipelines. The U.S. must also encourage the governments of China, India and Pakistan to create a series of alternatives to the Russian energy monopoly by building pipelines toward the west, and alternately south and east.<sup>62</sup> In addition, they should encourage Georgia, Ukraine, Azerbaijan and Moldova (GUAM) to develop energy independence and diversity as a counter to Russian influence.<sup>63</sup>

3. *Develop closer ties to and support for the states in the region* by encouraging mutual gains from western investment, security cooperation and military presence.<sup>64</sup>

The U.S. must increase its cumulative US aid budget, specifically the Freedom Support

Act and other foreign aid programs for countries in region.<sup>65</sup> They must build on “The Silk Road Strategy Act”, passed by Congress in 2000, which acted as an early support structure for the South Caucasus and Central Asia. It insured and enhanced the policies of aid to support humanitarian causes, democracy, border control and economic development.<sup>66</sup>

### **Military Recommendations:**

Russia has never supported the United States presence in the Caucasus. With the United State’s passive entrance into the region through the auspices of investment and energy development, they are well-positioned to capitalize on future relationships. The U.S. must continue a step-by-step approach to building trust. It must maintain its current capabilities, gradually building closer military ties with the independent states, emphasizing “common security interests” and developing an energy-security plan which addresses its future within the background of the modernization of the region.<sup>67</sup> In detail, the United States must:

1. *Develop and finalize a centralized energy-security policy* (through the U.S. Department of Defense) which is linked with the larger U.S. policy, and covers all branches of the military. Historically, energy policy has been handled in an ad hoc fashion, dependent on specific military branches, or individual regional commanders.

2. *Develop closer military ties to the Central Asian states* by strengthening intelligence capabilities, new and innovative military-to-military relationships, law enforcement exchange programs and relationships and anti-terrorism measures.<sup>68</sup> The

U.S. was instrumental in helping to build an operations center and radar sites in Baku, Azerbaijan, and has sent U.S. military personnel to act as trainers to the Navy and the Army.<sup>69</sup>

3. *Maintain current capabilities of the US Army in Europe* to ensure a quick response to crises in some of the far less stable areas in the region. These American troops can be tapped from bases in Europe to engage in missions such as building “partner nation” relationships. The overarching military goal is to pursue an active strategy with nations in the Caspian region and potentially prevent problems before they occur by conducting exercises and other military engagements.

## **Economic**

In order to have closer ties with the region and ensure mutual gain between the United States and the individual states, the U.S. must assist with legislative and economic reform. This will help bring foreign investment to the region, protect foreign investors and help spur economic growth.<sup>70</sup> In addition, the U.S. must encourage multinational corporations to view energy supply as a portfolio of assets, guiding them to diversify energy transportation routes in order to mitigate risk. China, the United States and the EU all support diversification.<sup>71</sup>

The goal is to win the confidence of the population in these local and national enclaves. To do this, the U.S. must encourage private sector growth (non-energy), promote government transparency, the creation of jobs, and government expansion in the area of social services. The U.S. must also encourage the recognition of civil liberties and increased government accountability.

## **Conclusion**

The United States should continue to actively pursue their common economic, political and security interests with Central Asia. Cooperation, rather than confrontation, will better lay the groundwork for cultivating the shared goals of developing energy resources, limiting nuclear proliferation and fighting terrorist threats. In order to reach these shared goals, the encouragement and involvement of the United States must contribute significantly to the political, social, economic and security development of Central Asia. In addition to cultivating relationships with the regional players, this will entail continuous dialogue with Russia, China and the European Union. In order to create a lasting impact, the United States must continue to support the institutions, governments and policymakers by promoting democratic, free-market ideals in areas that are still in the midst of economic and political development. Only through a commitment toward building these relationships will the United States be able to capitalize on its investment in the region, once again gaining the status as a role model and friend, rather than an external superpower, looking for profit or regime change.<sup>72</sup> American strategic interests can only be realized if their policies and actions serve as a stabilizing force in supporting the fragile institutions and civil societies of the Caspian region.<sup>73</sup>

## **Endnotes**

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